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STATE OF MONTANA
ENVIRONMENTAL QUALITY COUNCIL
FINANCIAL-COMPLIANCE AUDIT FOR THE
TWO FISCAL YEARS ENDED JUNE 30, 1985
PERFORMED UNDER CONTRACT BY:
EVE LAIRD & COMPANY
CERTIFIED PUBLIC ACCOUNTANTS

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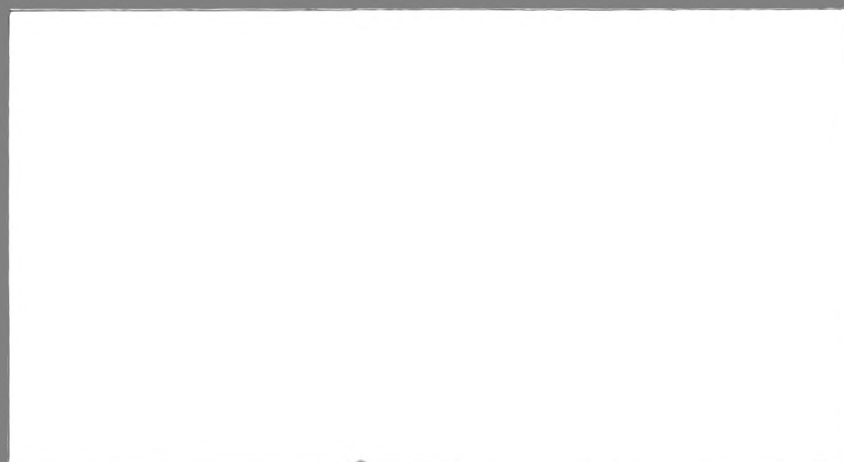
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ENVIRONMENTAL QUALITY COUNCIL

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STATE OF MONTANA

Office of the Legislative Auditor

STATE CAPITOL
HELENA, MONTANA 59620
406/444-3122



SCOTT A. SEACAT
LEGISLATIVE AUDITOR

October 29, 1985

DEPUTY LEGISLATIVE AUDITORS:

JAMES GILLETT
FINANCIAL COMPLIANCE AUDITS

JIM PELLEGRINI
PERFORMANCE AUDITS

LEGAL COUNSEL:

JOHN W. NORTHEY

The Legislative Audit Committee
of the Montana State Legislature:

Enclosed is the report on the audit of the Environmental Quality
Council for the two fiscal years ended June 30, 1985.

The audit was conducted by Eve Laird and Company under a contract
between the firm and our office. The comments and recommendations
contained in this report represent the views of the firm and not
necessarily the Legislative Auditor.

The agency's written response to the report recommendations is
included in the back of the audit report.

Respectfully submitted,

A handwritten signature in cursive script that reads "James Gillett".

James Gillett
Deputy Legislative Auditor

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ELECTED AND APPOINTED OFFICIALS

ENVIRONMENTAL QUALITY COUNCIL

1985-1987

SENATORS

REPRESENTATIVES

Mike Halligan, * Missoula - Vice-Chairman
Dorothy Eck, Bozeman
James Shaw, Wibaux
Larry Tveit, Fairview
Cecil Weeding, ** Jordan

Dennis Iverson, Whitlash - Chairman
Dave Brown, Butte
Bob Gilbert, Sidney
Hal Harper, Helena

PUBLIC MEMBERS

Tad Dale, Dillon
Thomas France, Missoula
Tom Roy, Missoula
Everett Shuey, Butte

Brace Hayden, Governor's Representative
Deborah Schmidt, Director

* Resigned September 1985

** Appointed September 1985

1983-1985

SENATORS

REPRESENTATIVES

Mike Halligan, Missoula - Vice-Chairman
Dorothy Eck, Bozeman
James Shaw, Wibaux
Larry Tveit, Fairview

Dennis Iverson, Whitlash - Chairman
Dave Brown, Butte
Hal Harper, Helena
Earl Lory, Missoula

PUBLIC MEMBERS

Tad Dale, Dillon
Leslie Pengelly, Missoula
Warren Harding, Simms
Frank Stock, Polson

John North, Governor's Representative
Deborah Schmidt, Director

SUMMARY OF RECOMMENDATIONS

This listing serves as a means of summarizing the recommendations contained in the report and the audited agency's response.

	<u>Page</u>
<u>Recommendation #1</u>	
We recommend that the Council accrue expenditures in accordance with State accounting policy.	3
Agency Response: Concur. See page 10.	
<u>Recommendation #2</u>	
We recommend the division include all property items on its accounting records.	3
Agency Response: Concur. See page 10.	
<u>Recommendation #3</u>	
We recommend that the Environmental Quality Council staff work with the Department of Administration to enable them to utilize SBAS.	3
Agency Response: Concur with qualification. See page 11.	

INTRODUCTION

We performed a financial-compliance audit of the Environmental Quality Council for the two fiscal years ended June 30, 1985. The objectives of the audit were to: (1) determine if the financial schedules present fairly the council's results of operations for the two fiscal years ended June 30, 1985; (2) determine if the council complied with applicable laws and regulations; and (3) make recommendations for improvement in the management and internal controls of the council.

This report contains recommendations to the Council. These recommendations address areas where the Council can improve management, internal control, financial reporting, and compliance with laws and regulations. Other areas of concern deemed not to have a significant effect on the successful operations of the Council's programs are not specifically included in the report, but have been discussed with management.

In accordance with Section 5-13-307, MCA, we analyzed the costs of implementing the recommendations made in this report. Each report section discloses the cost, if significant, of implementing the recommendation.

We thank the staff of the Environmental Quality Council for their cooperation and assistance during our audit.

BACKGROUND

The Environmental Quality Council was established by the Extraordinary Session of the 42nd Legislature in 1971 to implement provisions of the Montana Environmental Policy Act (MEPA - Title 75, Chapter 1, MCA). The Council functions as an arm of the Legislature, with the role of anticipating and analyzing the causes of environmental problems and recommending solutions to those problems. The Council also insures that state environmental policy is consistently observed by all state agencies that are concerned with environmental matters. The Legislature assigns interim studies relating to natural resources and economic development to the Council. The Council also assists the Legislature by staffing natural resource committees during the legislative sessions.

INTERNAL CONTROL

We have examined the financial schedules of the Environmental Quality Council for the two fiscal years ended June 30, 1985. We issued our opinion dated October 2, 1985 on these schedules. As part of our examination, we made a study and evaluation of the Council's control system. Our study evaluated the system as required by generally accepted governmental auditing standards for financial compliance audits. We classified the controls in the following categories:

1. Expenditures/liabilities;
2. property, plant, and equipment; and
3. payroll.

INTERNAL CONTROL (Cont.)

Our study included the control categories listed above. We applied alternative audit tests to property, plant, and equipment as we determined it was more efficient to expand substantive testing for this area. Through our study, we determined the nature, timing, and extent of our auditing procedures. We did not evaluate the control system to the extent necessary to give an opinion on either individual segments or the system as a whole.

The management of the Environmental Quality Council is responsible for establishing and maintaining a system of accounting control. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of control procedures. The objectives of a system are to provide management with reasonable assurance that: (1) assets are safeguarded against loss from unauthorized use or disposition; (2) transactions are executed in accordance with management's authorization; and (3) transactions are recorded properly to permit the preparation of financial schedules in accordance with state accounting policies. Inherent limitations in any system of controls may cause errors or irregularities to remain undetected. The current system evaluation should not be used to project to future periods since the procedures may become inadequate or compliance with them may deteriorate.

The limited purpose of our study described in the first paragraph would not necessarily disclose all material weaknesses in the system. Accordingly, we do not express an opinion on the system of controls used by the Environmental Quality Council.

This report is intended solely for the use of management and the Legislature and should not be used for any other purpose. This restriction as to use is not intended to limit the distribution of this document which, upon presentation to the Legislative Audit Committee, is a matter of public record.

The following report items discuss areas of concern noted during our audit of the Environmental Quality Council.

ACCRUING EXPENDITURES

Montana Operations Manual Management Memo, Volume 2, Year 85, No. 2 and Montana Operations Manual Section 2-1400, set forth the criteria for determining valid obligations at the end of a fiscal year. The Environmental Quality Council accrued \$7,000 for the purchase of equipment as of June 30, 1984, which was not budgeted for during the 1983-84 fiscal year. The Council had not issued a purchase order for the purchase of the equipment during the 1983-84 fiscal year. Accordingly, this accrual did not meet the required criteria. The Council also accrued \$9,000 and \$7,500 as of June 30, 1984, and 1985, respectively, for professional and printing services. These services were not received during the applicable fiscal years, and a valid contract or service agreement was not available to support the accrual. Accordingly, these accruals did not meet the required criteria.

Recommendation

We recommend that the Council accrue expenditures in accordance with State accounting policy.

PROPERTY ACCOUNTING

The State of Montana's accounting system includes a centrally maintained subsystem to manage and account for fixed assets owned by the State. The subsystem is known as the Property Accountability Management System (PAMS). The following paragraph discusses problems we noted regarding the Council's implementation of PAMS policies.

We noted that computer equipment was purchased in the 1984-85 fiscal year and was not added to the master register. We notified Council officials of the unrecorded items during our audit.

Recommendation

We recommend the division include all property items on its accounting records.

Prior Report Recommendations

The following audit comment and recommendation from the June 30, 1983 audit report still applied during the period of our examination. No other audit comments or recommendations were made in the June 30, 1983 audit report.

DUPLICATE RECORD KEEPING

The Council records its financial activity in manual records, in addition to using the Statewide Budget and Accounting System (SBAS). The manual records are used to compile financial schedules because the staff does not feel that SBAS meets their needs at all times.

The Council should request assistance from the Accounting Division of the Department of Administration to enable them to make better use of SBAS. The use of manual records could be virtually eliminated if the staff were able to make use of SBAS recording.

Recommendation

We recommend that the Environmental Quality Council staff work with the Department of Administration to enable them to utilize SBAS.

STATE COMPLIANCE

We reviewed compliance with state laws that could have a material impact on the financial schedules of the Council. In our opinion, the Council complied with the state laws and regulations tested. Nothing came to our attention that causes us to believe untested compliance issues are not in accordance with applicable laws and regulations.

AUDITORS' REPORT
AND SCHEDULES OF AGENCY FINANCIAL ACTIVITY

**Eve Laird & Company
Certified Public Accountants**

**Suite 514 Strain Building
Great Falls, Montana 59401
Phone (406) 727-1798**

The Legislative Audit Committee
of the Montana State Legislature:

We have examined the financial schedules of the Environmental Quality Council for each of the two fiscal years ended June 30, 1985 and 1984 as listed in the table of contents. Our examination was made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

As described in Note 1 to the financial schedules, the Environmental Quality Council's financial schedules are prepared in accordance with state accounting policy. Accordingly, the accompanying financial schedules are not intended to present financial position and results of operations in conformity with generally accepted accounting principles.

The Environmental Quality Council did not follow state accounting policy when recording accrued expenditures. As a result as discussed in Note 5 to the financial schedules, fiscal year June 30, 1985 expenditures were overstated by \$1,340 and fiscal year June 30, 1984 expenditures were overstated by \$16,000. Accordingly, support from the State of Montana was overstated by the same amounts.

In our opinion, because of the matter discussed in the preceding paragraph, the schedule referred to above does not present fairly the results of operations and the changes in fund balance of the Environmental Quality Council for the two fiscal years ended June 30, 1985, in conformity with the basis of accounting described in Note 1.

Eve Laird & Company

**EVE LAIRD & COMPANY
CERTIFIED PUBLIC ACCOUNTANTS**

October 2, 1985

ENVIRONMENTAL QUALITY COUNCIL
SCHEDULE OF CHANGES IN FUND BALANCE
FOR THE TWO FISCAL YEARS ENDED JUNE 30, 1985

	GENERAL FUND
Fund Balance, July 1, 1983	<u>\$0</u>
Additions:	
Fiscal Year 1984	
Support from State of Montana	214,698
Fiscal Year 1985	
Support from State of Montana	<u>194,555</u>
Total Additions	<u>409,253</u>
Reductions:	
Fiscal Year 1984	
Expenditures	214,795
Prior Year Expenditure Adjustments	(97)
Fiscal Year 1985	
Expenditures	209,683
Prior Year Expenditure Adjustments	<u>(15,128)</u>
Total Reductions	<u>409,253</u>
FUND BALANCE, JUNE 30, 1985	<u><u>\$0</u></u>

See the accompanying accountants' report and notes to the financial schedules.

ENVIRONMENTAL QUALITY COUNCIL
SCHEDULE OF PROGRAM EXPENDITURES BY FUND - BUDGET AND ACTUAL
FOR THE FISCAL YEARS ENDED JUNE 30, 1985 AND 1984

	JUNE 30, 1985	JUNE 30, 1984
	<u>ENVIRONMENTAL QUALITY PROGRAM</u>	<u>ENVIRONMENTAL QUALITY PROGRAM</u>
GENERAL FUND		
Budget	\$233,241	\$231,938
Actual		
Personal Services	143,458	140,466
Operating Expenses	66,164	62,553
Equipment	61	11,776
Total Actual	209,683	214,795
Unspent Appropriation Authority	\$23,558	\$17,143
	=====	=====
ALL FUND TOTAL		
Budget	\$233,241	\$231,938
Actual		
Personal Services	143,458	140,466
Operating Expenses	66,164	62,553
Equipment	61	11,776
Total Actual	209,683	214,795
Unspent Appropriation Authority	\$23,558	\$17,143
	=====	=====

See the accompanying accountants' report and notes to the financial schedules.

ENVIRONMENTAL QUALITY COUNCIL
SCHEDULE OF PROGRAM EXPENDITURES BY OBJECT
FOR THE FISCAL YEARS ENDED JUNE 30, 1985 AND 1984

	JUNE 30, 1985	JUNE 30, 1984
	<u>ENVIRONMENTAL QUALITY PROGRAM</u>	<u>ENVIRONMENTAL QUALITY PROGRAM</u>
Personal Services		
Salaries	\$113,439	\$111,260
Hourly Wages	3,751	3,346
Other Compensation	1,300	1,525
Employee Benefits	24,968	24,335
Total Personal Services	<u>143,458</u>	<u>140,466</u>
Operating Expenses		
Contracted Services	40,815	35,164
Supplies & Materials	2,021	1,228
Communications	8,331	7,492
Travel	12,021	15,360
Repair & Maintenance	1,266	86
Other Expenses	1,710	3,223
Total Operating Expenses	<u>66,164</u>	<u>62,553</u>
Equipment	<u>61</u>	<u>11,776</u>
TOTAL PROGRAM EXPENDITURES	<u><u>\$209,683</u></u>	<u><u>\$214,795</u></u>

See the accompanying accountants' report and notes to the financial schedules.

ENVIRONMENTAL QUALITY COUNCIL

NOTES TO THE FINANCIAL SCHEDULES JUNE 30, 1985 AND 1984

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The Environmental Quality Council utilizes the modified accrual basis of accounting which is described in the Montana Operations Manual.

Under the modified accrual basis of accounting, a valid obligation exists when the related liability is incurred except for the following items which are also considered valid obligations under state accounting policy.

- If the appropriation provided funds to complete a given project, the entire amount of a service contract may be accrued even though the services are rendered in fiscal years subsequent to the fiscal year in which the expenditure is accrued.
- The anticipated cost of equipment is expensed in the fiscal year in which budgeted.
- Goods ordered, but not received as of the fiscal year-end, may be accrued if the purchase order was issued in the fiscal year in which the anticipated expenditure is to be accrued.

Basis of Presentation

The financial schedules were prepared from the Statewide Budgeting and Accounting System (SBAS) without adjustments. Accounts are organized on the basis of funds according to State law. The following fund types are used by the office:

General - accounts for all financial resources except those required to be accounted for in another fund.

Vacation and Sick Leave

Employees are paid for 100 percent of unused vacation and 25 percent of unused sick leave credits upon termination. Accumulated unpaid liabilities for vacation and sick leave are not reflected in the financial schedules of the Environmental Quality Council. Expenditures for termination pay currently are absorbed in the annual operational costs of the council. At June 30, 1985, the council had a liability of \$9,258 for vacation leave and \$4,309 for sick leave.

ENVIRONMENTAL QUALITY COUNCIL

NOTES TO THE FINANCIAL SCHEDULES (CONT.) JUNE 30, 1985 AND 1984

2. PENSION PLAN

Employees are covered by the Montana Public Employees' Retirement System (PERS). The council's contributions to the plan are shown below:

	<u>Fiscal Year</u> <u>1984-85</u>	<u>Fiscal Year</u> <u>1983-84</u>
PERS	\$ 7,807	\$ 7,891

3. GENERAL FUND BALANCE

The General Fund is a statewide fund. Agencies do not have a separate General Fund since their only authority is to pay obligations from the statewide General Fund as long as they stay within their appropriation limits. Thus, on an agency schedule, the General Fund beginning and ending fund balance will always be zero.

4. GENERAL FIXED ASSETS

The council records assets on the State's Property and Accountability Management System. The general fixed asset equipment balance at June 30, 1985 is \$14,930. This amount does not include acquisitions of \$4,362 during the fiscal years 1985 and 1984.

5. EXPENDITURE ACCRUALS

The Council did not follow state accounting policy when recording accrued expenditures, accordingly, the following over (under) statements of expenses occurred:

	<u>1985</u>	<u>June 30</u> <u>1984</u>
Operating Expenses		
Contracted Services	\$ 7,020	\$ 9,000
Equipment	<u>(5,680)</u>	<u>7,000</u>
Total Over Statement of Expenditures	<u>\$ 1,340</u>	<u>\$16,000</u>

Accordingly, support from the State of Montana was overstated by the same amounts.

AGENCY RESPONSES



STATE OF MONTANA
ENVIRONMENTAL QUALITY COUNCIL

STATE CAPITOL
HELENA, MONTANA 59620
(406) 444-3742

Deborah B. Schmidt, Executive Director

GOV TED SCHWINDEN

Designated Representative
Brace Hayden

HOUSE MEMBERS

Dennis Iverson, Chairman
Dave Brown
Hal Harper
Bob Gilbert

SENATE MEMBERS

Mike Halligan, Vice Chairman
Dorothy Eck
James Shaw
Larry Tveit

PUBLIC MEMBERS

Tad Dale
Thomas M. France
Tom Roy
Everett E. Shuey

November 4, 1985

Joseph P. Eve
Eve Laird & Company
Suite 514, Strain Building
Great Falls, MT 59401

Dear Mr. Eve:

This letter is the Environmental Quality Council's official written response to the draft financial-compliance audit report for the two fiscal years ended June 30, 1985.

Accruing Expenditures - Recommendation

Prior to year-end 1984, \$7,000 was accrued for the purchase of an IBM displaywriter terminal. Discussions were held with IBM personnel and a letter was written before the year-end to start the process of purchase, which ultimately took about seven months. The Council concurred with the purchase and, although a purchase order was not processed, documentation is available for the intended use of the funds.

The Council did accrue funds for professional and printing services in the amounts of \$9,000 and \$7,500 as of June 30, 1984, and 1985, respectively. The services were not rendered prior to year-end, but the Council authorized performance of the services for projects started prior to June 30, 1985.

EQC will, in the future, if necessary, follow more closely the Montana Operations Manual Management Memo policy as set forth in your letter.

Property Accounting - Recommendation

EQC acknowledges the State of Montana's accounting system known as the Property Accountability Management System (PAMS) and has placed computer equipment purchased in January of 1985 on the system. All other equipment meeting requirements for placement on PAMS is so recorded. The computer equipment was inadvertently omitted from PAMS.

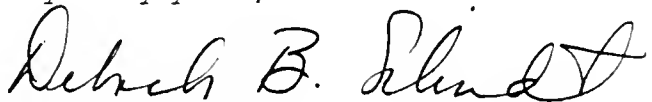
Joseph P. Eve
Eve Laird & Company
November 4, 1985
Page 2

Prior Report Recommendations - Duplicate Record Keeping

The Council continues to maintain manual records to compile financial schedules because the staff still does not feel that the Statewide Budget and Accounting System (SBAS) meets its needs at all times. The keeping of additional manual records takes very little time to compile while saving time later. The manual records are balanced with the SBAS records each month, thus utilizing the state system.

Thank you for your efforts to ensure that EQC's financial accounting system is sound. Please contact me if you have further questions concerning the audit.

Very truly yours,

A handwritten signature in cursive script, reading "Deborah B. Schmidt".

DEBORAH B. SCHMIDT
Director

DBS:ee

cc: EQC Members
Legislative Auditor

